



WISCONSIN REGULATORY DIGEST

A Publication of the
ACCOUNTING EXAMINING BOARD

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Board Member Profile

Frank Probst, CPA

An accounting professor at Marquette University, chairman of Wisconsin's Accounting Examining Board (AEB), and a member of the AICPA's Board of Examiners, **Frank Probst** has helped to develop the educational and experience requirements necessary for accountants to be licensed as CPAs in Wisconsin. He also has been involved in investigating the alleged unprofessional conduct of licensed CPAs.

A member of the AEB since 1994, Probst has taken his responsibility seriously. "I wanted to protect the public's interest," he says. "I wanted to make sure that entrants into the profession and those practicing within the profession are committed to the ethical and professional standards."

"I've been very fortunate to be involved at two different levels," Probst adds. "As an accounting professor at Marquette University, I'm working with young people, preparing them for the profession. As a member of the AEB, I've been involved in determining who will be eligible to be licensed as a CPA in the state."

WISCONSIN ACCOUNTING EXAMINING BOARD

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While another responsibility of the Board is to investigate unprofessional conduct, Probst reports that there have been few allegations during his tenure.

"The reality is that in the eight years that I've been serving on this Board, there have been very few cases of unprofessional conduct," he says. "I think that's a tribute to the people who practice in Wisconsin." "Let's not paint all accountants with the broad brush of 'cooking the books' that the popular press would lead you to believe," he adds. "One bad apple doesn't mean that the whole case is spoiled." But Probst acknowledges that "CPAs need to rebuild the public's trust to maintain the integrity of the profession."

Wisconsin To Require Peer Review

Beginning January 1, 2005, a CPA firm that provides attest services must affirm on its renewal application that it has undergone a peer review during the prior three-year period.

A peer review is a review of a CPA firm's attest services practices. The review covers a random sampling of engagements and includes an evaluation of relevant working papers and reports to determine if appropriate standards were followed. The reviewers' report must provide reasonable assurance that the firm's attest practices conform with professional standards.

Attest services include audits, reviews, compilations (in accordance with the Statements

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on Standards for Accounting and Review Services) and attestation engagements. Some licensed CPA firms do not provide attest services. For example, a firm that provides only income tax planning and preparation services would not be required to undergo a peer review.

A sole proprietor who provides attest services is required to obtain a firm license in addition to his or her individual license.

Firms that provide attest services will want to plan for its triennial peer review to be conducted after January 1, 2003 and no later than the January 1, 2006 firm license renewal date.

The Board is proposing to adopt the AICPA peer review requirements for implementation of the Wisconsin program. Firms may refer to the "Standards for Performing and Reporting on Peer Reviews" issued by the AICPA to learn more about peer reviews.

Independence for CPAs – New Rules

A new Independence rule is in the final stages of adoption by the Accounting Examining Board. The purpose of the new rule is to make Wisconsin code consistent with the American Institute of Certified Public Accountants rules, as they have been in the past. The American Institute of Certified Public Accountants (AICPA) adopted new Independence rules in May, 2002.

As proposed, Wis. Admin. Code Accy 1.101 describes the circumstances that would impair the independence of the Certified Public Accountant and prohibit the issuance of an opinion on relevant financial statements. The circumstances include having a financial interest in the client; being a trustee, executor, or administrator for an entity with a financial interest in the client; owning over 5 percent of client ownership interests; or being a director, officer, or employee of the client. These rules generally apply to the covered member and his or her immediate family.

Proposed Wis. Admin. Code Accy 1.102 addresses loans from financial institution clients. Generally, such loans are prohibited. There are provisions for grandfathered loans entered into before June 1, 2002 under normal lending terms. Certain other loans are permitted, such as auto loans collateralized by the auto, insurance loans covered by policy cash surrender value, loans fully covered by cash deposits at the same financial institution,

and credit cards and advances with a balance not exceeding \$5,000 by the payment due date.

A new provision, Wis. Admin. Code Accy 1.103, defines 22 terms, including:

"attest service", "attest engagement", "attest engagement team", "client", "close relative", "covered member", "financial statement", "firm", "immediate family", "individual in a position to influence the attest engagement", "member", "office", "partner", "period of the professional engagement", "practice as a certified public accountant", and "professional".

The proposed rules are available in the October 1, 2002 Wisconsin Administrative Register at:

www.legis.state.wi.us/rsb/code/register/reg561b.pdf

Rebuilding Trust

By Robert Tie

William F. Ezzell—a partner of Deloitte & Touche LLP—assumed the AICPA chairmanship in October at the Institute's annual meeting, which was held this year in Hawaii. Like all incoming chairmen, Ezzell faces a host of urgent priorities. But in the wake of the Enron scandal he has singled out the profession's tarnished image as his most immediate concern and pledged to focus on practitioners' core values of integrity and objectivity. "Before we do anything else," he said during a recent interview with the *Journal of Accountancy* "we've got to put our house in order."

It's clear, however, that restoring investors' and regulators' eroded confidence in auditors won't be a cakewalk. To make matters worse, Ezzell says, critics of the profession don't distinguish between auditors of public companies and those of small, privately held businesses. He fears this could lead to laws and regulations that inappropriately and illogically apply to all auditors.

That's what makes Ezzell's accession to the chairmanship both a challenge and an opportunity. True, his big-firm pedigree could alienate small firms. But if he succeeds in protecting their interests and supports policies that address other members' needs as well, practitioners of all stripes are likely to rally around common values and professional aspirations. A stronger, unified profession could better repair the other bonds of trust—with investors, clients and the government—on which all practitioners' success depends.

Restoring Faith in CPAs

Since 1993 Ezzell has headed Deloitte & Touche's government relations program in Washington, D.C., making sure that regulators and members of Congress understand and fully consider the profession's perspective on critical issues. That role originated when Ezzell became chairman of—and his firm's representative to—the Accountants' Coalition, a task force that works closely with the AICPA and state societies on legislative and regulatory issues. With the Institute, the coalition communicated the profession's positions on tort reform to federal legislators writing and voting on the Private Securities Litigation Reform Act of 1995 and the Securities Litigation Uniform Standards Act of 1998. These federal laws reduced public companies'—and their accountants'—exposure to frivolous lawsuits investors filed after corporations or their representatives had issued revenue projections or other statements that ultimately proved inaccurate.

Ezzell is well aware of the various hats AICPA members wear. He was chairperson of the AICPA Group of 100, the accountants' legal liability committee and the Institute's federal legislative task force. He has worked with state societies to amend the Uniform Accountancy Act and with CPAs in companies whose financial statements Deloitte & Touche audits. Ezzell believes this first-hand knowledge enables him to better represent all members. And as chairman, he aims to renew the government's and the capital markets' trust in the profession by conveying to them CPAs' ongoing dedication to providing valuable services in a reliable, ethical manner.

A Time For Unity

Ezzell's experience gives him a broad perspective. "I began my career with Deloitte & Touche (then Haskins & Sells) in 1973," he recalled. "They assigned me to a 30-person office in Greensboro, North Carolina." Ezzell had just graduated from the University of North Carolina at Chapel Hill with a bachelor's degree in business administration and accounting. For several years he provided audit and tax services to new, growth companies. "Practicing in that office was very similar to working in a small firm," he said, "so I understand that world and the challenges CPAs in it face each day."

But few practitioners have worked at both ends of the size spectrum and understand the different perspectives. "It's easy, with a diverse

membership, for one group to find itself at odds with another," Ezzell continued. "I recognize the validity of individual concerns," he said, "but we won't reach our common goals—for example, restoring our reputation—unless we work together."

Small firm CPAs worry in particular about a potential "cascade effect," in which state laws influenced by the Sarbanes-Oxley Act would impose oversight provisions on all auditors, whether or not they audit public companies. The act requires state regulators to determine whether such added requirements are necessary. "But there's no good reason to impose additional regulations on small firms," Ezzell said. He wants to maintain the delicate balance between collaborating with reform and allowing it to run amok. "We want to protect small firms' right to provide trustworthy business advice to small companies," he added. "It's critical to their success and to that of the economy."

Toward that end Ezzell aims to correct misconceptions in government circles about which segments of the profession need more oversight and which don't. "Some politicians don't understand the difference between investing in a public company and in a private company, where the investors are insiders—for example, family members—who can get all the financial performance data they want," he said.

In contrast investors in a public company have a less intimate relationship with its management; they need auditors as their objective intermediaries to confirm the validity of the company's financial statements. "That requires a few more safeguards," Ezzell said, "and Sarbanes-Oxley has built them into the system." But, he added, private-company investors don't need such stringent protections, which would unnecessarily restrict smaller firms and their small-company clients, who can't afford a full-time controller, treasurer, CFO, chief information officer or accounting manager.

"Small firms and big firms don't have the same needs or serve the same kinds of clients, so they shouldn't be regulated in the same way," Ezzell said. "We have to get that message across; it's not well understood."

Cooperation On The Hill

Influencing lawmakers preparing the Sarbanes-Oxley legislation kept Ezzell extraordinarily busy this year, but he's pleased with the results. "Some in Congress wanted to require public

companies to change their audit firm every five years so the auditor's independence wouldn't be impaired," he said. But Ezzell and others, recognizing a gap in legislators' understanding, explained to them how firms already get "fresh looks" at their clients by rotating—at least every seven years, as required by the AICPA's SEC practice section—the audit partner assigned to each client. They also pointed out that ongoing personnel turnover in each firm's audit staff produces a similar effect and that academic studies have shown there's greater potential for auditors to miss something in the early years of an audit when they haven't had sufficient experience with the client's business. "We persuaded Congress to eliminate the firm rotation proposal from the final bill," he said, "and that resulted in more reasonable, informed legislation."

Allying With State Boards

For several years the Institute worked closely with the National Association of State Boards of Accountancy (NASBA) to update the Uniform Accountancy Act (UAA). Ezzell said the Institute was satisfied with the latest version of the UAA but disappointed that many states haven't implemented it. "We're getting too much deviation," Ezzell said. "I understand each state has its own requirements. But today CPAs use technology to transcend state lines more easily than ever before, creating a national—if not global—marketplace, and that argues for greater UAA consistency. We need a system that protects the public while being as uniform as possible across state lines," he concluded. "I don't think these two goals are incompatible."

Prepare For The Future

Despite the number of new challenges facing the profession and Ezzell, other issues predate his arrival and continue to require attention.

Recruitment. To Ezzell, even bad publicity can have positive ramifications. "The media's extensive coverage of Enron has made people more aware CPAs do audits, even if the public doesn't quite understand all that's involved," he said. "Our role in the capital markets is more visible now, and that attracts people to the profession." Meanwhile, the bursting of the tech-stock bubble reduced the allure of other careers. "Wall Street isn't offering million-dollar hiring bonuses any more, and no one's retiring at age 28 with bushels of options," Ezzell said.

Diversity. To make accounting more attractive for those in the profession as well as for those contemplating entering it, Ezzell plans to

continue his personal commitment to improving opportunities for women and minority-group members. "Several years ago," Ezzell said, "Deloitte & Touche found that addressing the needs of women in the workplace was not only the ethical thing to do but it made business sense as well." The result: lower turnover and greater enthusiasm. He followed that path in making AICPA and Group of 100 committee assignments as reflective of the profession's demographics as possible. "We've improved, but we still have a long way to go—so I'll continue to focus on diversity issues," he said.

Standards. Moving U.S. accounting standard setting toward broad principles and away from specific rules is a worthwhile—but difficult—objective, Ezzell said. He believes such a step would elevate the quality of financial reporting, and he intends to cooperate with the SEC, FASB and the IASB in promoting it. Ezzell also said he joins SEC Chairman Harvey L. Pitt and FASB Chairman Robert H. Herz in supporting efforts to harmonize U.S. and international accounting standards, thereby improving cross-border capital flows.

Technology. Ezzell said he continues to be a strong proponent of Extensive Business Reporting Language (XBRL), which will facilitate development and the ultimate implementation of the more extensive and easily shared "comprehensive model for business reporting" proposed by the Jenkins Committee in 1994 and supported by the AICPA and other groups.

Hit The Ground Running

In the long term, the aspect of Ezzell's experience that could prove most valuable to members is his ability to represent the profession before lawmakers and regulators. "We're not finished on Capitol Hill yet," he said. "There'll be congressional hearings next year on the overall effectiveness of the Sarbanes-Oxley Act and how well firms are complying with it." No doubt members, especially those from large and small firms and from industry, will be watching closely.

Only time will tell if Ezzell will be able to overcome dissension in the membership and bridge the gaps between the profession and those who rely on or oversee it. But he feels the naturally inclusive, communicative style he's honed working with committee members, state societies and Congress will help him develop consensus and reestablish trust—two precious

commodities the Institute and all CPAs need right now.

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Ownership Interest

The Accounting Examining Board at its October 18 meeting adopted "Ownership Interest" rules for accounting firms. The Accounting Examining Board created accountancy rule Accy 1.408 relating to the definition of "Ownership Interest" for the purpose of determining eligibility of firms for a license as a certified public accounting firm.

The text of the rule is as follows:

Accy 1.408 Ownership requirements. (1) In this section "ownership interest" means any equity or voting interest in a firm.

(2) An applicant for a license as a certified public accounting firm shall demonstrate that more than 50% of the ownership interest of the firm is held by individuals who hold certificates or licenses to practice as a certified public accountant issued under the laws of any state or foreign country.

(3) A firm applying for licensure meets the ownership requirement under sub. (2) in the following circumstances:

(a) If the applicant is a sole proprietorship and the owner holds a certificate and license to practice as a certified public accountant issued under the laws of this state.

(b) If the applicant is organized as a service corporation and more than 50% of the voting rights are held by individuals who are certified public accountants.

(c) If the applicant is organized as a business corporation and more than 50% of the voting rights are held by individuals who are certified public accountants.

(d) If the applicant is organized as a partnership or limited liability partnership and more than 50% of the voting rights are held by individuals who are certified public accountants.

(e) If the applicant is organized as a limited liability company and more than 50% of the voting rights are held by individuals who are certified public accountants.

(4) An applicant firm with ownership characteristics other than those identified in sub. (3) may submit information about the ownership interests of all members of the firm to the board. The board may determine that more than 50% of the ownership interest of the firm is held by individuals who hold certificates or licenses to practice as a certified public accountant. In making this determination the board shall consider whether ownership interest of all members of the firm results in control and management of the firm by individuals who hold certificates or licenses to practice as a certified public accountant.

The rule was reviewed by committees in the Wisconsin legislature, without comment, and was published in the Wisconsin Administrative Code and became effective on January 1, 2003.

Disciplinary Actions

The following disciplinary summaries are taken from orders that can be reviewed on the Department of Regulation and Licensing Web site: www.drl.state.wi.us. Click on "Publications" and then "Reports of Decisions" to view the order. Decisions reported below may have an appeal pending and the discipline may be stayed. The current status of the discipline may be viewed on the Department's Web site under "License Lookup". The progress of cases in court may be viewed at: www.courts.state.wi.us.

CHARLES G SCHWEIGER, CPA

SUSSEX, WI LIMITED/REPRIMAND/COSTS
Undertook an engagement that he could not reasonably complete and failed to complete with due professional care. \$500.00 costs. Dated 8-16-2002. Sec. 442.12(2), Wis. Stats. Accy 1.201(1)(b), Wis. Admin. Code. Case #LS0208162ACC

DONALD E PALM, JR, CPA

HUDSON, WI REVOKED
Convicted of one count of theft-false representation. Dated 8-16-2002. Wis. Stat. 442.12(2); Wis. Admin. Code Accy 1.401(2)(b)(3) and (4). Case #LS0208161ACC

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